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UNCLAS SECTION 01 OF 02 LAGOS 000256

SIPDIS

STATE PASS USTR FOR LISER, AGAMA
STATE PASS OPIC FOR ZHAN, MSTUCKART, JEDWARDS
STATE PASS TDA FOR, DSHUSTER, MARIN
STATE PASS EXIM FOR JRICHTER
STATE PASS USAID FOR NFREEMAN, GBERTOLIN
GABORONE PASS PDROUIN
BAGHDAD PASS DMCCULLOUGH
COMMERCE FOR KBURRESS, DHARRIS
TREASURY FOR DPETERS, RHALL, RABDULRAZAK

E.O. 12958: N/A
TAGS: EFIN ECON EAGR EAID EINV ETRD NI
SUBJECT: NIGERIA: IMF PROJECTS 2.9 PERCENT GROWTH RATE

¶1. (U) Summary. Officials of the International Monetary Fund (IMF) on May 19 made a presentation on the economic outlook for sub-Saharan Africa in Lagos, and predicted 2.9 percent real GDP growth for Nigeria in 2009, with 4 percent non-oil sector growth. The IMF commended the Central Bank of Nigeria (CBN) on the policies the bank introduced to stem the impact of the global financial crisis (GFC) on Nigeria, but expects Nigeria's foreign reserves to fall below USD 40 billion by yearend 2009. Although the CBN claimed reserves were USD 47.8 billion at end of March 2009, it admits significant reserve accumulation this year is unlikely and that Nigeria may in fact record a trade current account deficit for the year. End Summary.

IMF Regional Economic Outlook for Sub-Saharan Africa

¶2. (U) On May 19, the International Monetary Fund (IMF) in conjunction with the Central Bank of Nigeria (CBN) presented the Regional Economic Outlook for sub-Saharan Africa (SSA) to a cross section of business executives in Lagos. IMF Deputy Director Mark Plant reviewed the impact of the global financial crisis (GFC) on SSA, highlighting fallen commodity prices and foreign investment outflows, and low demand for SSA products as the major shock points. Norbert Funke, another IMF official, mentioned low inflows from overseas and spillover effects like foreign banks' withdrawal of credit lines, tighter credit conditions and less favorable trade finance conditions, as chief stress points for SSA financial systems. (Note: The presentations are available at www.imf.org/external/country/nga/rr/index.htm End Note.)

¶3. (U) Plant projected SSA growth to decline from 5.4 percent in 2008 to 1.5 percent in 2009 and recover mildly to 3.8 percent in 2010, while fiscal deficits are expected to widen in most countries. He urged African policy makers to adopt expansionary fiscal and monetary policies where possible and to allow exchange rates to adjust to external environments to mitigate the impact. Foremost, Plant urged African governments against policies that could undermine economic reforms implemented in recent years. Funke advised SSA central banks to close regulatory and legal gaps and strengthen supervision of the financial sector.

2.9 Percent Growth; Less than USD 40 billion Foreign Reserve Projected for Nigeria in 2009

¶4. (U) Plant projected a 2.9 percent real gross domestic product (GDP) growth for Nigeria in 2009, mostly driven by the non-oil sector which is expected to grow by 4 percent. This is down from 5.3 percent growth in 2008 as estimated by the IMF. Inflation is expected to pick up as significant swings in fiscal and current account balances are likely, he said. Plant noted that Nigeria's strong external reserves, which were about USD 57 billion in November 2008, cushioned the initial impacts of the GFC, but he expected reserves to dip to less than USD 40 billion by end of 2009. Plant commended the CBN for its policy responses to mitigate the second round effects of the crisis on Nigeria's financial sector, particularly by allowing the naira to depreciate in late 2008, although he urged the CBN to strive to unify the exchange rate markets in the near term.

¶5. (U) Charles Mordi, CBN's Director of Research, said Nigeria's external reserve at end of March 2009 was USD 47.8 billion. He conceded that significant reserve accumulation is unlikely in 2009 because of low oil prices and the Niger Delta crisis which has steadily reduced Nigeria's crude oil production. Mordi said credit to the private sector grew between 2004 and 2007, declined in 2008 and was negative in first quarter 2009. He put the total of Nigerian banks' exposure to the capital market at naira 784 billion (USD 5.4 billion), down from naira 1 trillion (USD 6.9 billion) initially touted by the CBN. However, the CBN anticipates a modest recovery of the stock market as confidence and capital inflows return slowly. The Bank projects Nigeria will still grow by 5 percent although Nigeria may record a current account deficit for the year, Mordi said.

¶6. (U) This cable has been cleared by Embassy Abuja.

Blair